

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 8139

BILL NUMBER: SB 559

DATE PREPARED: Feb 5, 2001

BILL AMENDED:

SUBJECT: Tax Credits for Personal Property Taxes Paid.

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FUNDS AFFECTED: X

X

**GENERAL
DEDICATED
FEDERAL**

IMPACT: State

STATE IMPACT	FY 2001	FY 2002	FY 2003
State Revenues			(159,500,000)
State Expenditures		(96,100,000)	(162,000,000)
Net Increase (Decrease)		96,100,000	2,500,000

Summary of Legislation: This bill provides a credit against state tax liability for property taxes paid on personal property. It specifies that the credit is equal to the amount of property taxes paid on personal property with an assessed valuation of not more than \$37,500. The bill also repeals the existing personal property tax reduction credit.

Effective Date: January 1, 2002.

Explanation of State Expenditures: Under current law, the state pays a property tax credit equal to the net tax liability on the first \$12,500 of assessed value of a taxpayer's tangible personal property. This credit is commonly referred to as the Personal Property Tax Replacement Credit (PPTRC). Because of a change in the definition of assessed value that will take effect with the 2001 payable 2002 tax year, the current credit for \$12,500 AV will be based on \$37,500 AV instead. This scheduled change does not affect final tax bills or state costs in any way. For clarity, references to assessed valuation will be in 2000 terms.

The current credit is a property tax credit which reduces the net property tax payment of personal property tax payers. Each taxpayer is entitled to one credit for up to \$12,500 AV on *each* tax statement. A taxpayer receives one tax statement for each taxing district in which the taxpayer owns property. There are multiple taxing districts within each county. In CY 2000, the first year for which the credit was available, the state paid \$181.4 M in credits.

This bill would change the property tax credit into an income tax credit beginning with the credit for property taxes paid in CY 2002. The new credit would limit each taxpayer to *one credit* for up to \$12,500 AV within the state. The taxpayer's assessed value within multiple districts in the state could be combined to reach the \$12,500 AV statewide limit. Since this bill would allow credit for up to \$12,500 AV statewide per taxpayer, it would reduce the credit amount to which a taxpayer is entitled if the taxpayer is currently receiving PPTRC on a total of more than \$12,500 AV in multiple taxing districts within the state. The consolidation of the \$12,500 AV statewide limit on a statewide basis would reduce the amount that the state pays for the credit.

The income tax credit may be taken against the taxpayer's liability under the Corporate Gross Income Tax, Adjusted Gross Income Tax, Supplemental Net Income Tax, Financial Institutions Tax, and Insurance Premiums Tax. If the amount of the credit exceeds the taxpayer's liability, they may carry forward the excess in subsequent years, but they may not claim a refund.

This analysis assumes that the next reassessment of real property will be effective with property tax paid in CY 2003. The real property reassessment will affect property tax rates which are applied to both real and personal property values.

State expenses would be reduced by the repeal of the current property tax credit. Likewise, state revenues would be reduced by implementation of the income tax credit. The following table lists the estimated overall change in the state's cost for the credit.

Estimated Net Cost of Personal Property Tax Replacement Credit (In Millions)			
	Current Cost (Expense Reduction)	Cost under Proposal (Revenue Reduction)	Net Cost Reduction
FY 2002	\$190.4	\$94.3	\$96.1
FY 2003	162.1	159.6	2.5
FY 2004	133.1	109.4	23.7
FY 2005	135.8	111.6	24.2

The large reduction in the FY 2002 expense is caused by a shift in the timing of the credit's effect on the state due to the change from a property tax credit to an income tax credit. As a property tax credit, the state pays the credit in equal installments in June and December of the property tax year in which the credit is accrued. Under this proposal, the state's entire expense for a year would come in the first few months of the calendar year following the property tax year in which the credit is accrued. The impact of the income tax credit for tax year 2002 will not occur until FY 2003.

Explanation of State Revenues: See State Expenditures.

Explanation of Local Expenditures:

Explanation of Local Revenues: Local revenues would not be affected by this proposal.

State Agencies Affected: State Board of Tax Commissioners; Department of Revenue.

Local Agencies Affected: County auditors; County assessors.

Information Sources: State Board of Tax Commissioners, Property Tax Analysis; Property tax return data.